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C O N F I D E N T I A L SECTION 01 OF 02 RIGA 000552

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TAGS: EFIN PREL ETRD PHUM KCRM LG

SUBJECT: AMBASSADOR'S MEETING WITH PM ON 311 DESIGNATIONS  
AND COCA COLA

REF: RIGA 528

Classified By: Ambassador Catherine Todd Bailey. Reason 1.4 (D)

¶1. (C) Summary: Latvian Prime Minister Kalvitis greatly appreciated an advance briefing by Ambassador Bailey July 12 on U.S. Treasury decisions to sanction one Latvian bank for taking insufficient measures to combat money laundering and to lift the threat of sanctions on a second bank, bringing closure to a year long process. Ambassador Bailey stressed that the decision was balanced and included strong acknowledgement of the efforts of the GOL on this issue. Kalvitis and the Ambassador agreed on the need to stay vigilant in Latvia's financial sector. The Prime Minister also agreed to help facilitate contacts between the GOL and Coca Cola on proposed regulations that could harm Coke's business in Latvia. The PM was a bit more reserved than normal, after being up late the night before at a marathon, pre-summer holiday cabinet session. End summary.

¶2. (U) Ambassador Bailey met with PM Kalvitis the morning of July 12. Kalvitis was joined by his foreign policy advisor Peteris Ustubs. Pol/econ chief (notetaker) accompanied Ambassador Bailey.

¶3. (C) The Ambassador informed the Prime Minister of the decision by the U.S. Treasury to bring to a close the process begun last year when VEF and Multibanka banks had been designated as institutions of concern for money laundering under section 311 of the Patriot Act. Upon completion of the review, Treasury had decided to lift the proposed rule on Multibanka and to finalize the rule on VEF. This information would be made public later in the day. The Ambassador stressed that this was a balanced decision, and a good one for Latvia. The decisions and accompanying press releases from both Treasury and the Embassy would note the significant progress made by the Latvian government to improve the legal and regulatory framework for the financial sector in Latvia. The decisions would also note the efforts by both banks to address the areas of concern. In the end, VEF's ownership remained an area of particular concern. Ambassador Bailey stressed the need for the GOL to remain vigilant and to make active use of the new tools provided in legislation to ensure that other banks in Latvia could not become conduits for money laundering or financing of terrorist operations. In particular, it was important to know where money from accounts closed at one bank is moving to next. She urged the PM to make these points to his government and in his public comments.

¶4. (C) The Prime Minister expressed his appreciation for the advance notice and for achieving closure on this issue. He agreed on the need to remain vigilant and to make full use of the new legislative authorities granted by Parliament over the past year. In response to a question from him, Ambassador Bailey clarified that VEF could apply for a review

of the rule at a future date when they had taken steps to address our concerns, especially on ownership. Ustubs noted that both banks had been given the same opportunity to get out from under the problem and only one appeared to take it.

15. (SBU) Ambassador Bailey, noting our continued frustrations with Health Minister Berzins on a range of issues, raised the proposed regulations that would harm Coke's business in Latvia (reftel). See said that Coke wants to be a good corporate citizen and shares the GOL's goal of improving the health of schoolchildren, but cannot even get a meeting at the Ministry of Health. The Prime Minister, while noting that the rule in question was not yet final, said he would talk to "my friend" the Health Minister.

16. (U) On education, the Ambassador stressed the success we were having in building private-public partnerships to help get Latvian students to the U.S for college. Four would be going this year and fifth early in 2007 through one such program and she appreciated the PM's willingness to meet with them before they left. She urged Kalvitis to find ways to increase his government's support for these kinds of efforts.

17. (C) The Prime Minister raised the gay pride march planned for July 22, which has drawn much negative press and public comment. He said that the week before the parade would be "tough" politically and that this was a difficult issue in an election year. (Comment: One party, currently part of Kalvitis' coalition, is making opposition to gay rights a central issue in its election campaign. End comment.) He said he would be meeting later in the day with the security services to hear their views on a location and security for the event. The Ambassador stressed that it was important to Latvia's efforts to build an inclusive, tolerant society that

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values freedom of speech that the march be allowed to go forward, with appropriate (i.e. not excessive) security. Noting that the march was only a small part of a larger program that included seminars and a film festival, she urged the Prime Minister to work with local groups to ensure that this could be become a win for both the groups and the government and perhaps even build additional opportunities for tourism in Latvia.

18. (C) Comment: Kalvitis was more reserved than normal. Ustubs said there was a late night cabinet session the previous evening on budgetary issues before ministers begin to head out of Riga for the summer. Nevertheless, the PM was appreciative of our consultations on the banks. That a decision would be forthcoming was not a surprise and he seemed pleased that we highlighted in our public comments what the GOL was doing right on this issue. Over the last year, he and his government have taken this issue seriously as they seek to develop Latvia as a credible regional financial center. We will need to keep them focused on making full use of the new regulatory authorities granted in the aftermath of our original designation of the two banks. On Coca-Cola, we are cautiously optimistic that the Prime Minister's involvement will help break the current slow pace of cooperation from the Health Ministry. End comment.

Bailey